

**COUNTY OF SAN LUIS OBISPO BOARD OF SUPERVISORS  
AGENDA ITEM TRANSMITTAL**

(1) DEPARTMENT Planning and Building	(2) MEETING DATE 10/7/2014	(3) CONTACT/PHONE Dana Lilley, Supervising Planner/(805)781-5715	
(4) SUBJECT Request to approve revision to subordination criteria for individual home owners with loans from the County's affordable housing programs. All Districts.			
(5) RECOMMENDED ACTION It is recommended that the Board approve the attached revision to the existing subordination criteria.			
(6) FUNDING SOURCE(S) CDBG, HOME, CalHome	(7) CURRENT YEAR FINANCIAL IMPACT \$0.00	(8) ANNUAL FINANCIAL IMPACT \$0.00	(9) BUDGETED? No
(10) AGENDA PLACEMENT <input checked="" type="checkbox"/> Consent <input type="checkbox"/> Presentation <input type="checkbox"/> Hearing (Time Est. ____ ) <input type="checkbox"/> Board Business (Time Est. ____ )			
(11) EXECUTED DOCUMENTS <input type="checkbox"/> Resolutions <input type="checkbox"/> Contracts <input type="checkbox"/> Ordinances <input checked="" type="checkbox"/> N/A			
(12) OUTLINE AGREEMENT REQUISITION NUMBER (OAR) N/A		(13) BUDGET ADJUSTMENT REQUIRED? BAR ID Number: <input type="checkbox"/> 4/5 Vote Required <input checked="" type="checkbox"/> N/A	
(14) LOCATION MAP N/A	(15) BUSINESS IMPACT STATEMENT? No	(16) AGENDA ITEM HISTORY <input checked="" type="checkbox"/> N/A    Date: _____	
(17) ADMINISTRATIVE OFFICE REVIEW Lisa M. Howe			
(18) SUPERVISOR DISTRICT(S) All Districts			

# County of San Luis Obispo



TO: Board of Supervisors

FROM: Planning and Building / Dana Lilley, Supervising Planner

VIA: Trevor Keith, Policy and Programs Division Manager

DATE: 10/7/2014

SUBJECT: Request to approve revision to subordination criteria for individual home owners with loans from the County's affordable housing programs.

## **RECOMMENDATION**

It is recommended that the Board approve the attached revision to the existing subordination criteria.

## **DISCUSSION**

In early 2010, a married couple purchased their first home with a County loan through its HOME funded first time home buyer program. The County loan was secured by a deed of trust recorded in second position behind that of the first mortgage loan. Now this married couple is divorced, and one condition of the divorce is that the remaining owner pay off the ex-wife for her share in the home's equity. In order for the remaining owner to pay her off, he must refinance the first mortgage for a greater amount than it was previously. In order to refinance, the lender requires that the second lien holder, the County in this case, "subordinate" its security to the new mortgage. As a result, the lender is now asking the County to subordinate.

This type of situation was not addressed when the County's subordination criteria were established or last revised. However, in order to pay off the ex-spouse, the owner must refinance the first mortgage with a new, and greater, mortgage. The owner will have higher monthly payments than before, but not so high that they are unaffordable.

Additionally, in order to prevent borrowers from taking equity out of their properties unnecessary, staff recommends that a criterion be added limiting the resulting debt coverage ratio to no more than 98 percent of the property value. A similar debt coverage ratio limit was included in the County subordination criteria until home values declined significantly during the recession. Now that home values are recovering, staff believes that the debt coverage ratio should be reinstated and that the statement regarding annual review of the criteria to consider reinstating the debt coverage ratio should be deleted.

## **OTHER AGENCY INVOLVEMENT/IMPACT**

County Counsel and County Auditor-Controller Treasure-Tax Collector Public Administrator reviewed the attached subordination criteria.

## **FINANCIAL CONSIDERATIONS**

This request will not have a direct financial impact to the County. However, the revised subordination criteria would enable a higher first mortgage amount and monthly payments for the borrower in some cases, which would result in slightly greater risk that the borrower might default on the first mortgage. Even in those cases, the County would likely be paid off unless home values drop significantly as they did during the most recent recession.

**RESULTS**

The intended result is to enable low income homeowners with County loans to retain homeownership after co-owners separate. This would further the Communitywide Results of a Prosperous Community.

**ATTACHMENTS**

1. Attachment 1: Subordination Criteria for Individual Homeowners